98-84368-10

Sherman, Porter

Money

[S.l.]

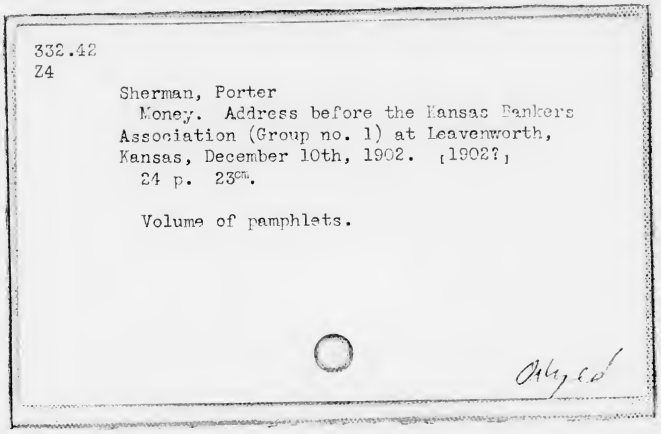
[1902?]

98-84363-10
MASTER NEGATIVE #

COLUMBIA UNIVERSITY LIBRARIES
PRESERVATION DIVISION

BIBLIOGRAPHIC MICROFORM TARGET

ORIGINAL MATERIAL AS FILMED - EXISTING BIBLIOGRAPHIC RECORD



332.42
Z4
Sherman, Porter
Money. Address before the Kansas Bankers Association (Group no. 1) at Leavenworth, Kansas, December 10th, 1902. [1902?]
24 p. 23cm.

Volume of pamphlets.

Orig. ed

RESTRICTIONS ON USE: Reproductions may not be made without permission from Columbia University Libraries.

TECHNICAL MICROFORM DATA

FILM SIZE: 35mm REDUCTION RATIO: 10:1 IMAGE PLACEMENT: IA (IIA) IB IIB

DATE FILMED: 3/10/98 INITIALS: F.C.

TRACKING # : 32204

FILMED BY PRESERVATION RESOURCES, BETHLEHEM, PA.

BIBLIOGRAPHIC IRREGULARITIES

MAIN ENTRY: Sherman, Porter

Money

Bibliographic Irregularities in the Original Document:

List all volumes and pages affected; include name of institution if filming borrowed text.

_____ Page(s) missing/not available: _____

_____ Volume(s) missing/not available: _____

_____ Illegible and/or damaged page(s): _____

_____

_____ Page(s) or volume(s) misnumbered: _____

_____ Bound out of sequence: _____

_____ Page(s) or volume(s) filmed from copy borrowed from: _____

_____

X pages 23-24 (writing over text)

_____ Other: _____

_____

_____ Inserted material: _____

TRACKING#: MSH32204

332.5
M11

MONEY.

ADDRESS BEFORE THE KANSAS BANKERS ASSOCIATION
(Group No. 1)
at Leavenworth, Kansas, December 10th, 1902.

By PORTER SHERMAN,
President of the Wyandotte State Bank.

MONEY,

A MEDIUM OF EXCHANGE, A MEASURE OF VALUE.

To have value, an article must satisfy a want, be exchangeable, and cost sacrifice. Division of labor leads to exchange. Barter of commodity against commodity would be difficult under a high division of labor. It would be especially difficult to make change. Money is the most current commodity. More rapidly than any other article of wealth, it runs from hand to hand, and does its work on the run.

DIFFERENT KINDS OF MONEY.

Various commodities have been used as money, yet only such as have a generally recognized value. In the lower stages of civilization, people have used, as money, common commodities which satisfy an urgent bodily need. With advancing civilization, wealth, and refinement, they have changed to more costly articles, which satisfy the wants of luxury; from cattle to silver and gold, for example. Among hunter tribes, skins of animals are used as money; almost the only product of their industry which can be kept any length of time and the chief article of their clothing and of export. Among nomadic tribes, cattle serve as money.

That the metals were used as money later than the above-named articles and the precious metals still later, cannot be proved as a general proposition. Gold in many countries is obtained with so little expense and

gold and silver satisfy so early, so universal a need, as personal ornaments, which among certain tribes shows itself even before the need of clothing, that we find gold and silver in early times employed as money. Among isolated people, the geological formation of their land may determine the kind of money used; whether the land contains mines of gold or silver. The more highly industry is developed, the more common become large payments; and, for these, the more costly metals are better adapted.

THE VALUE OF MONEY.

The value of money is high when the values of other commodities are low; low, when other commodities are high. Value in money is determined like the values of other articles of wealth, by cost of production, supply and demand. The demand for money is determined by the need and the ability to pay of the buyer. If a country has but little trade, it needs but few tools of trade (money). If it is poor, it can buy but little money, and needs but little. The value of money is determined, in the long run, by the cost of production. Cost of production limits supply and demand. Since the cost of production varies in different mines according to their richness, the value of the precious metals (money) is determined, in the long run, by their cost of production in the poorest mines worked in order to supply the demand for the precious metals, gold and silver. The poorer the mines worked and the more unfavorable the conditions of working them, the greater amount of commodities, of food, clothing, etc., for the miners must be consumed to produce a pound of gold or silver if the

work is not to stop. The work will stop if the value of the output does not cover cost.

HOW MUCH MONEY DO WE NEED, THE VALUE OF MONEY REMAINING THE SAME?

This is determined not by the "per capita," nor by the wealth of the country. It is determined by the combination of the following factors:

First, by the number and size of the exchanges.

Second, by the rapidity of circulation of money.

In great cities the circulation is more rapid than in the country; in a dense, than in a sparse population; in commerce, than in agriculture. Every improvement in transportation and communication makes the currency run faster.

Third, by the number and rapidity of circulation of the substitutes for money, as bank checks, bills of exchange, bank notes, greenbacks, etc. (credit money.) The value of these rests solely upon the credit of the maker; whether the maker be an individual, a bank, The United States of America, The Confederate States of America, or The Continental Congress. ("Not worth a continental.")

The demand for money will increase with the increase of the first factor and diminish with the increase of the second and third factors.

HISTORY OF THE VALUES OF THE PRECIOUS METALS.

A history of the value of gold and silver (money) in antiquity and in the middle ages cannot be written. Statistics are wanting. Yet, it is possible to point out some facts influencing their values in these periods. In antiquity, a part of the supplies from the mines was

kept from the market through a system of hoarding by states, religious temples, and individuals. The revolutions of prices in antiquity result as often from the sudden opening of such reservoirs as from the discovery of new fountains. Thus, upon the unmistakable rise in prices of commodities in Greece in the century after the Peloponnesian War, such events have had a striking influence; as the paying out of the treasures of Pericles; the war indemnity paid by the Persian King; the plundering of so many temples caused by decay of religion; the acquisition and expenditure of the Persian treasures by Alexander, the Great. In Rome, the increase of money caused by the payment of the Egyptian war indemnity, is said to have doubled the price of land. Phœnicia and Palestine, in the time of Solomon, experienced an inundation of the precious metals, while Greece, at that time and centuries later, was money poor and prices were consequently low. "Now, the weight of gold that came to Solomon in one year was six hundred, three score and six talents of gold. And King Solomon made two hundred targets of beaten gold; six hundred shekels of gold went to one target. And he made three hundred shields of beaten gold; three pound of gold went to one shield. Moreover, the king made a great throne of ivory and overlaid it with the best gold. And all King Solomon's drinking vessels were of gold. And all the vessels of the house of the Forest of Lebanon were of pure gold; none were of silver; it was nothing accounted of in the days of Solomon. And the king made silver to be in Jerusalem as stones." 1 Kings, 10th Chapter.

THE PRODUCTION OF GOLD AND SILVER IN MODERN TIMES.

The value of gold produced in 357 years from 1493 to 1850 is $3,314,550,000. The value of gold produced in 44 years, from 1851 to 1895, is $5,868,099,850. The value of silver produced in 357 years, from 1493 to 1850, is $7,358,450,000. The value of silver produced in 44 years, from 1851 to 1895, is $3,592,350,700. This enormous increase of the precious metals in the nineteenth century has led to a depreciation of their values relatively to other commodities. It is the opinion of good authorities that the value of metal money, from the discovery of America to the middle of the nineteenth century, has depreciated to one-third or one-fourth of its value in 1492. The prices of wheat in France, 1800 to 1850, were about seven times, in England, 1817 to 1850, six times as high as in the second half of the fifteenth century. A part of this rise is owing to the increased value of wheat in itself. No definite line can be drawn between these two factors.

THE CONSEQUENCES OF SUCH A REVOLUTION OF PRICES CAUSED BY DEPRECIATION OF VALUE IN MONEY.

Through it, gold and silver as articles of luxury become cheaper. This advantage has been more or less wiped out by the depreciation in value of the gold and silver treasures on hand, by the necessity of using a greater quantity of gold and silver to effect the exchanges. There follows during this process an important change in the distribution of wealth. All those who have to pay debts already contracted gain the difference between the former and the present value of the circulating medium (money). All receivers of debts

already contracted lose this difference. Merchants better their condition; they mark up their goods while their contracts for rent, borrowed capital, etc., remain for the time being at the old figures. Those with fixed incomes lose. The condition of the laborer is made worse, since it will be some time before, through strikes or other means, his wages will be raised.

AN APPRECIATING MEDIUM OF EXCHANGE.

A partial or total stoppage of the production of gold and silver would work a revolution in prices in the opposite direction, which for the business of the country would be disastrous. A shrinkage of all values except values of gold and silver (money) would result. The most active, for the time, the most productive classes would suffer. The value of finished products would fall relatively to their cost of production, and would have to be sold at a loss, a repetition of this process would discourage further production. Those classes would be benefitted who have only to enjoy the products of past activity, the monied classes. The value of their money would grow in their hands. The gold and silver discoveries of the nineteenth century, without which money would have become dearer, have, doubtless, contributed to the industrial prosperity of the world and prevented business stagnation, paralysis, decay and bankruptcy.

"SIXTEEN TO ONE."

After the smoke and carnage of the battle field have cleared away, and the dead have been tenderly and decently buried, it is not out of place, perhaps, "with malice toward none, with charity for all," carefully to

examine the field of battle and to mark the spots where whole regiments went down under the banner of "16 to 1." Everywhere we shall find the "cross of gold" planted above the graves of the vanquished. The "crown of thorns"———.

The market ratio of gold and silver is now about 32 to 1; that is, on the market thirty-two pounds of silver exchange for one pound of gold. This is not a theory, but a condition of the market.

The value of potatoes is determined by their cost of production, supply, and demand. More accurately, the value of potatoes is determined by their cost of production on the poorest land planted to potatoes (allowing for rent on the better land planted to potatoes) in order to supply the demand for potatoes. The value of corn is determined by the cost of production of corn on the poorest land planted to corn (allowing for rent on the better land planted to corn) in order to supply the demand for corn. The relative values of potatoes and corn are determined by the relative costs of production of potatoes and corn on the poorest land planted to potatoes and corn, in order to supply the demand for potatoes and corn.

The value of silver is determined in the long run (silver lasts longer than potatoes) by the cost of production of silver in the poorest mines worked (allowing for rent of the better mines) in order to supply the demand for silver. The value of gold is determined in the long run (gold lasts longer than corn) by the cost of production of gold in the poorest mines worked (allowing for rent of the better mines) in order to supply the demand for gold. *The relative values of gold and silver are determined in the long run by the relative costs of production of gold and silver in the poorest mines worked in order to supply the demand for gold and silver.*

With the advance of wealth and civilization, gold relatively to silver has become more valuable. During the middle ages, the ratio was 10 or 12 to 1; that is, less than in antiquity. In France, 1393, 11 1-6 to 1. In Poland, 1356, 12 to 1. In England, from 1104 to 1227, 9 to 1; in 1266, 9 6-10 to 1; in 1292, 12 5-10 to 1; in 1345, 13 7-10 to 1; in 1494, 12 to 1. In Florence, 1252 to 1495, from 10 to 11 to 1. In Italy, 1579, 12 to 1. In Holland, 1585, 11 6-10 to 1. In Germany, 1522, 10.31 to 1. The German coinage ratio, 1524, 11⅓ to 1; 1559, 11 3-7 to 1; 1566, 11.55 to 1. At the beginning of the seventeenth century, in Spain, 13 3-10 to 1; in Germany, 12.16 to 1; in Holland, 13.22 to 1; in England, 13.5 to 1. Between 1621 and 1640 in Germany, France and Holland, 14 to 1. From 1641 to 1660, 14.5 to 1; 1660 to 1680, 15 to 1. In 1791, in the above countries; 15 to 16 to 1. From 1874 to 1881, in the above countries, 16 to 18.65 to 1.

In more civilized and wealthy countries, gold relatively to silver becomes more valuable. This is explained by reference to both supply and demand. The great rise in the value of gold relatively to the value of silver since 1873, ("the Crime of '73") 15.92 to 1; 1874, 16.17 to 1; 1875, 16.62 to 1; 1876, 17.77 to 1; 1877, 17.22 to 1; 1878, 17.92 to 1, has been caused by the adoption of the gold standard in Germany and Scandinavia, the closing of the mints of India and of the states of the Latin Union (France, Belgium, Switzerland, Italy, Greece,) and of the United States to the free coin-

age of silver, and the increased production of silver in America and elsewhere. AS THE CHIEF CAUSE, including all minor causes, is the tendency of gold in wealthy and highly civilized countries to become more valuable relatively to silver.

In Asia, the values of gold and silver are nearer together than in Europe and the United States. For centuries, 10 to 1 has been the prevailing ratio, except in Burmah, where a ratio of 17 to 1 is found, owing to the greater use of gold for articles of luxury and personal adornment, its original use.

In Africa, gold is worth less relatively to silver the further one is removed from the civilized world. In Timbuctoo, Mungo Park found a ratio of 1½ to 1.

In antiquity, a similar course is observed. By the laws of Menu, 2½ to 1. In Persia, under Darius, son of Hystaspes, 13 to 1.

In Greece, at the time of Lysias, 10 to 1; at the time of Plato, 12 to 1; at the time of Demosthenes, 14 to 1. Under Gelon, of Sicily, 485 B. C., 13 8-9 to 1. Menander reckons 10 to 1; since the conquests of Alexander the Great has made gold cheaper. Under the Ptolemies of Egypt, 12.5 to 1. In Rome, 189 B. C., 10 to 1; somewhat later, 11.9 to 1; in the fourth century, 14.4 to 1; in the fifth century, 18 to 1.

Sometimes sudden changes of value occur; thus, according to Polybius, gold in Italy sunk in value one-third on account of the opening of new gold mines at Aquileia. It sunk to 9 to 1 when Cæsar paid out the state treasure which was in gold. The ratio of 17 to 1 during the Second Punic War was a sign of panic and state bankruptcy. (Hannibal ad Portas!) The assumption, therefore, of many "bimetallists" that God, when he created the heavens and the earth, fixed in the frame of nature the ratio of 16 to 1; that, when the morning stars first sang together, "16 to 1" was the refrain—rests upon no foundation of fact and history. The facts of history are all on the other side. In this way has been "maintained the parity of the two metals."

FREE COINAGE.

By free coinage is meant the legal right of any one owning the precious metals to take them to the mint and have them coined into money. We now have, in this country, free coinage of gold but not of silver. The "Kansas City Platform" favors the free and unlimited coinage of gold and silver at the ratio of 16 to 1, without waiting for the action of any other nation. (Kansas City has become historic.) This means that the silver in a silver dollar shall weigh sixteen times as much as the gold in a gold dollar, and these two kinds of dollars shall, under free coinage of both, be legal tender for the payment of debts. The silver in a silver dollar is now worth in the market less than one-half as much as the gold in a gold dollar, and a debtor with a dollar debt to pay, under free coinage of gold and silver at the ratio of 16 to 1, could at the present time, with the gold in the gold dollar, go into the market and buy silver enough to make two silver dollars, have it coined into two silver dollars, and with one of these silver dollars pay his dollar debt, and put the other silver dollar in his pocket. Had he paid his dollar debt in gold with a gold dollar, he would have had no silver dollar left to put into his pocket. As human nature is at present

constituted, since "the fall of man," he will pay his debt with the cheaper money and profit thereby. The dearer money will go out of use as a medium of exchange. Whenever two kinds of money are of different intrinsic values and are legal tender for the payment of debts, the cheaper money will, under free coinage of both, be used and the dearer will disappear from circulation. This fact is familiarly known as Gresham's Law. But before the time of Sir Thomas Gresham, this fact, this law and the reasons for it, were as clearly and definitely stated by the Frenchman, Nicholas Oresmius, in the fourteenth century, and earlier than Gresham in the sixteenth century, by the German astronomer, Nicholas Copernicus.

Free coinage of gold and silver at the ratio of 16 to 1 means practical silver monometallism. What would this mean for us? Gold would go to a premium and disappear from circulation. Gold was at a premium, it disappeared from circulation in Anno Domini, 1896, at the mere threat of free coinage of gold and silver at the ratio of 16 to 1. This threat caused a run on the banks, the depositors withdrawing their funds to invest in gold for the premium, and to avoid being paid in fifty cent silver dollars by the banks. Our circulating medium is now about two thousand million dollars, about one-half of which is gold. The other half consists of silver (half credit money) and paper (credit money.) The one thousand million dollars of gold would go to a premium and disappear as a circulating medium, leaving us a circulation of one thousand million dollars of silver and paper money, each dollar of which, if the paper was redeemable in silver, would be

worth fifty cents in gold. Money would be "tight" with only one-fourth money enough to effect the exchanges. The wide, the universal bankruptcy of all business conducted upon a credit basis could hardly be conceived and described. The imagination of a Dante or a Milton would hardly be equal to the task, and yet they both described Hell. Debts would be paid at fifty cents on the dollar, if at all. It would take the mints grinding day and night under a full head of steam some ten to fifteen years to turn out three thousand million dollars silver money to fill the vacuum caused by the withdrawal of the one thousand million dollars gold from circulation. The one thousand million dollars silver and paper money left would effect only one-half the exchanges it effected before the withdrawal of gold, and would need to have one thousand million dollars silver added to it to effect the same exchanges as before. The one thousand million dollars gold withdrawn would be replaced by two thousand million dollars silver. One thousand million dollars plus two thousand million dollars equal three thousand million dollars. "The mills of the gods grind slow," but under such circumstances they would doubtless seem to the business world to grind faster than the mints. These figures might be changed somewhat by the possible increased value of silver, especially during the grind. After the grind (in more than one sense,) we would be on a silver basis with a fifty cent silver dollar as the standard of value, like Mexico for example. Colorado and other silver producing states might gain by the enhanced price of silver caused by the increased demand, especially until the vacuum caused by the withdrawal of gold

had been filled. Gold would not be coined to any large extent, but would be largely shipped out of the country to the gold standard countries. The silver from those countries would be dumped here, and we would have here the condition described in 1 Kings, 10: "And the king made silver to be in Jerusalem as stones." I will not further discuss the advantages of a gold standard for a wealthy, commercial and highly civilized nation. They are so great that by a process of natural evolution such countries have now adopted the gold standard, following the lead of England in 1816. I may state, however, that the par of exchange between countries having gold standards is more steady than between gold and silver countries. The price of exchange between Kansas City and London is lower and steadier than between Kansas City and the City of Mexico.

Japan, the first nation of the slumbering Orient to awake, and rub its eyes, on March 8th, 1897, adopted the gold standard with the ratio of 33⅓ to 1. But the Japanese, with Marquis Ito at their head, are not wise enough to know whether this ratio will insure to them permanently the gold standard. Their gold standard to-day under free coinage at a ratio of 33⅓ to 1, may turn to a silver standard tomorrow.

BIMETALLISM.

After going over these grounds, Jevons concludes that "bimetallism is not worth much powder and shot; the whole thing will collapse at the next meeting of a conference." There can be but one standard of value in a country at the same time. What this shall be will be determined by the trade, industry, wealth and civilization of the country; by economic conditions and not by law, the law, in the long run recognizing and conforming to economic conditions. Thus, Rome had, after the middle of the fifth century B. C., the copper standard, before that the cattle standard. After the time of her triumph over the Samnites, 293 B. C., she had in her treasury 2,033,000 pounds of copper, and only 1,330 pounds of silver. But generally, the state treasure was in silver during the copper period, in gold during the silver period. Shortly before the First Punic War, the silver standard was introduced. Upon the establishment of the empire under Cæsar and Pompey, the circulation was chiefly gold. The same law, the same evolution may be traced in other countries. As Egypt was the richest land of the Middle Ages down to the twelfth century, gold circulation prevailed here. When Italy had become economically the most advanced country of Christendom, at Florence, 1252, the gold gulden, the chief coin. In the best times of the Hanseatic League in the fifteenth century a practical gold standard. The gold standard, introduced into Prussia, Austria and southwest Germany about 1740, could not be maintained, and these countries returned to the silver standard. Germany's war indemnity from France, 1871, enabled her to go over to the gold standard. The large output of gold in the last fifty years has favored the gold standard. California, Australia, etc.

INTERNATIONAL BIMETALLISM.

The natural causes determining the relative values of gold and silver have already been stated: The relative costs of production of gold and silver in the poorest mines worked to supply the demand for gold and silver.

International bimetallism, in a world union, would be possible under two conditions: First, that the market ratio at the beginning be the coinage ratio. Second, that the relative costs of production of the two metals be not afterwards changed. Either of these conditions failing, the metal undervalued at the time in the coinage ratio would disappear as money and reappear as an article of luxury. This use of the precious metals as articles of luxury is too little considered by the bimetallists of our day. Yet it is the original, determining cause of the values of the precious metals and is still of great weight, since it allows a quite unlimited extension. There are now used up in the arts and in articles of luxury, about one-third of the annual production of gold, and one-fourth of the annual production of silver.

CHANGE OF STANDARD.

Changes of standard are generally children of necessity, born of a deranged double standard, no longer to be maintained, since the causes which determine the relative market values of gold and silver do not run parallel for any considerable length of time, and any considerable, even a slight variation of the market ratio from the coinage ratio will force the undervalued metal out of circulation under free coinage of both, according to Gresham's Law.

MONOMETALLISM.

After bimetallism has broken down from the above named causes, whether the gold or the silver standard shall be adopted will depend upon several things. Gold, on account of its greater specific weight and higher specific value, can be more easily guarded and transported. Silver, on the other hand, is better fitted for smaller payments. The question, whether the newer discoveries of precious metals and improvements in methods of production from the mines endanger more the steadiness in value of gold or silver, cannot be answered definitely beforehand, on account of the endless multiplicity of causes here at work, partly on the side of demand, partly on the side of supply. Thus, shortly after the discovery of gold in California and Australia, Michael Chevalier advised France to drop the gold standard as he thought he foresaw a frightful depreciation in the value of gold. Holland, in 1851, actually went back to the silver standard, but could not stay there.

CHOICE OF STANDARD.

The choice of standard is to be determined: First, from the stage of development of the business of the country. The richer a people, the larger payments it has to make; for which, gold is better fitted than silver.

Second. According to the size of the business territory. The greater fraction of the trade of a people is its foreign trade, the more to be desired is the gold standard. Also, at home, very large countries find it necessary to send money from one part of its territory to another remote part; for which gold is better fitted.

Third. According to the value of the precious metals in general, the cheaper these, the more is it desirable to make payments in that metal, which, on account of its greater value, has less volume.

Fourth. Whether a people within its own industrial territory produces one or the other precious metal, can have for the decision of the standard the less decisive

weight, the further its economic evolution has proceeded.

MONEY FUNCTIONS OF GOVERNMENT.

First. The government stamp upon the coin is merely its certificate of the weight and fineness of the metal in the piece, to avoid the already experienced danger, inconvenience, and delay in weighing and testing the fineness of the metal used in exchange. The metal in the piece is worth as much as the coin less seigniorage and the value of the alloy.

Among the Jews, gold was first coined under King David. In Greece, King Pheidon of Argos, about the middle of the eighth century before Christ, introduced the first silver money. The Romans coined the first silver money 269 before Christ, the first gold coins, 207 B. C.

Among modern nations, Venice (A. D. 1285) and Florence coined gold. In England, Henry the Third (died 1272) coined the first gold, but with so little success that Edward the Third (died 1377) is regarded as the first gold coiner.

Henry the Third indeed (and this illustrates our general proposition, that the medium of exchange is determined by and is the product of industrial evolution) ordered the mayor and sheriffs of London to put his gold coins into circulation, but without effect.

Second. To pass legal tender laws.

MONEY AND INTERNATIONAL BALANCE OF TRADE.

The unproductiveness of money was a favorite doctrine of the middle ages. This led to stringent laws

against usury. Money is a standard of value and the most important implement of commerce.

The mariner's compass, the discovery of the new world, and the new route to the Indies, by way of Cape Good Hope, enlarged the world and led to a wonderful extension of foreign commerce. This led to the opposite doctrine that money is the *only* true wealth.

If money is the only true wealth, a people that has no gold and silver mines (for example, Italy, France, England,) can become rich only through foreign commerce by means of a favorable balance of trade, in which its export of commodities exceeds its import, and the excess is paid in cash by the foreign country. According to this theory, one country can gain only what some other loses.

This gain is promoted not only by putting obstacles in the way of exportation of gold and silver, but by raising the value of all exports and lowering the value of imports. Since manufactured goods, on the average, are worth more than raw materials, the government can aid this by taxes on imports of manufactured goods, prohibitions of imports of manufactured goods, by bounties on the export of manufactured goods, and by bounties on the import of raw materials. This is the more necessary as against people who are superior to us in civilization, wealth, and cheapness of labor and capital. Such commodities as cannot be produced in the country, through defects in soil, climate, etc., must be produced in the colonies in order to "emancipate ourselves from foreign countries."

This is in brief an outline of the socalled "Mercantile System" in vogue in Europe from the time of the Refor-

mation down to the French Revolution. The "Colonial System" was a part of it. The French Revolution, with many other good things, introduced sounder views on the subjects of trade and finance.

American protectionism is the legitimate offspring of the Mercantile System. The Mercantile System of the middle ages is the original "American System."

A deeper insight into the economic forces exploded this system, since, sifted to the bottom, it is an attempt to get something out of nothing. Since there is no fund out of which to pay duties on the import and bounties on the export of manufactured goods, as well as duties on the export and bounties on the import of raw materials, except the general fund created by the industry of the people, what is gained on the one side is lost on the other. Taxes and prohibitions on the export of raw materials lower their value by checking or keeping away from our market foreign purchasers of the same. Bounties on the import of raw materials favor the manufacturer at the expense of the taxpayer and home producer of raw materials. Bounties on the export of manufactured goods favor the manufacturer and foreign consumer, at the expense of the taxpayer and the home consumer. Duties on the import of manufactured goods, that is, "protection" as we understand it, favor the home manufacturer and foreign consumer at the expense of the home consumer. Prohibition against the importation of foreign goods has the same effect in a higher degree. Hardly had the Mercantile System become established in Europe when a reaction against it began. The truth, that the continual export of commodities is impossible without a corresponding import, and that in international trade both parties better their condition, became clear to the Italians, the most enlightened nation of Europe at that time—early in the fifteenth century—and to the Dutch in the sixteenth and seventeeth centuries.

This reaction rests upon the following propositions: Money is a commodity, and, like all other commodities, useful only for certain purposes. It is just as little in the interest of the wealth of a people to heap up unlimited quantities of gold and silver through a favorable balance of trade as it is in the interest of its power to heap up unlimited quantities of gunpowder. He who has other commodities of value can procure for them what money and gunpowder he needs. We part with no capital when we exchange money for other articles, but only change one form of value for another. The idea that the gain in foreign trade consists in the payment of bare cash is just as false as in private transactions among individuals at home. To most men it would be burdensome to convert their entire property at once into cash, and the nation consists of individuals. A continually favorable balance of trade is not possible. The relative increase of the amount of precious metals in the country increases the prices of other commodities, and lowers the relative value of money and causes an export of the precious metals, until a restoration with the general level of other commercial countries is effected, like the general level of the waters of the ocean on the face of the globe. The precious metals becoming more abundant and cheap, as compared with their value in other countries, are the articles exported to markets where they are less abundant and worth more. It is impossible and undesirable to "keep

the money in the country." Laws against the export of gold and silver cannot be enforced. We cannot be "robbed of specie" except by an invading army.

Down to the middle of the eighteenth century stringent laws against the exportation of the precious metals existed in all the states of Europe. Spain, which for a long time laid exclusive claim to the New World, served only as a *sieve* through which the gold and silver from America were sifted and scattered over the commercial world.

Some necessary qualifications of some of the foregoing propositions: Of all commodities, money is the most current, and has great durability. Among a highly civilized people, with a highly developed industrial system, in which the division of labor is carried to a high pitch, money becomes one of the most productive, useful, important, and indispensable parts of the national wealth. Among such a people it will happen more often that the owner of other commodities will lack the requisite money than that the owner of money will lack the other necessary commodities. Those numberless, half mystical expressions of the "magic power" of money which have passed from the mouths of the people into literature cannot pass for mere error. We cannot assert the impossibility of an excess of the importation or exportation of the precious metals, which may continue for a long time. Thus gold and silver imported are not going into circulation as money exercise no effect upon general prices of commodities, and can remain in the country permanently. Such gold and silver as are worked up into articles of luxury, buried hoards the idly stored up treasures of the government,

may serve as examples. If the internal commerce of the country is on the increase, requiring more and more money to carry it on, there will, other things being equal, be an overbalance of the import of the precious metals, which will continue while the internal commerce continues to expand. If internal commerce is on the decline, there will be a movement the other way. Whoever supposes that a continuing preponderance of export or import of gold and silver is impossible must have overlooked the possibility of a widely extended international indebtedness. (Our bonds held abroad.) The aggregate balance of trade against the United States from 1790 to 1854 amounted to $816,000,000. During that time the United States exported $816,000,000 worth of gold and silver more than was imported, and no prudent man will say that we were all that time becoming poorer. (See Hoch's "Financial History of the United States," page 175.)

Our strikingly favorable balance in the few years before 1881, was to a large extent cancelled by our payment of United States bonds held abroad.

We must distinguish the balance of payments in general from the balance of trade in the narrower sense. Under the ~~former~~ latter, if we wish to be exact, we must include on the credit side of the account: 1. Our exports of commodities. 2. Our gain in selling these in foreign markets. 3. The freight paid us by the foreigner for carrying goods in our ships. 4. The sale of our ships in foreign markets. On the debit side, the same items which the foreign country receives from us. To find the general balance of payments, we must add to this account on the credit side: 1. The gain brought home

with our citizens, derived from engaging in enterprises in foreign countries. 2. Interest and payment of money loaned in the foreign country. 3. The sale of our bonds and other securities in the foreign country. 4. Remittances from the foreign country to foreign travelers in this country, as well as money which such travelers bring with them. 5. Inheritances, pensions, and extraordinary payments from the foreign countries. On the debit side of the account we must place the same items, moving in the opposite direction.

In this way, if one could overlook the whole world, he would perceive a three-fold current of the precious metals. The most regular one moves in large draughts from the countries which produce gold and silver, flows over all commercial regions and distributes the newly acquired precious metals as they are needed for coinage, manufactures, etc. The second *oscillates*, so to speak, from land to land, to make good, for the time being, the excess of payments not met by other commodities. The second is what is understood as the balance of trade in the narrower sense. Finally, we have irregular, sudden currents, with slowly following counter currents, when particular departments of industry, through bad harvests, wars, a disturbed double standard of value, etc., require an import or export of the precious metals.

The history and doctrine of the international balance of trade, which for centuries have played an important part in the commercial policy of nations, in its relation to our tariff legislation, is worth the careful study of every intelligent American citizen.

32204

END OF
TITLE